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OPEN MEETING

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MEMORANDUM
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AZ CORP COMMISSION
DOCKET CONTROL

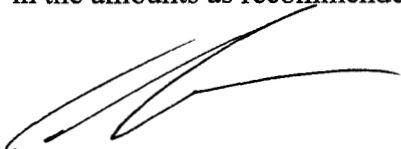
TO: THE COMMISSION

FROM: Utilities Division

DATE: November 1, 2013

RE: STAFF REPORT IN THE MATTER OF THE APPLICATION OF FAR WEST WATER & SEWER COMPANY FOR AUTHORITY TO INSTITUTE A WATER HOOK-UP FEE, AND IN THE MATTER OF THE APPLICATION OF FAR WEST WATER & SEWER COMPANY FOR AUTHORITY TO INSTITUTE A WASTEWATER HOOK-UP FEE (DOCKET NO. WS-03478A-13-0200)

Attached are the Staff Report and the Engineering Report, plus attachments, for Far West Water and Sewer Company's application for authority to institute a water hook-up fee and for authority to institute a wastewater hook-up fee. Staff recommends approval of the hook-up fees in the amounts as recommended by Staff.



Steven M. Olea
Director
Utilities Division

SMO:GWB:tdp\WVC

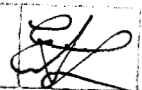
Originators: Gerald W. Becker
Jian W Liu

Arizona Corporation Commission

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STAFF REPORT

Introduction

On June 19, 2013, Far West Water & Sewer Company ("Far West" or "Company") filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to institute water and wastewater hook-up fees for its water and wastewater divisions. Far West seeks approval to charge a water hook-up fee ("HUF") beginning at \$2,000 for a 5/8" x 3/4" meter and a wastewater HUF of \$2,000 per equivalent residential unit ("ERU"). Presently, the Company does not have a HUF's.

Background

Far West is an Arizona "C" corporation engaged in the business of providing water and wastewater utility service to customers in Yuma County, Arizona under authority granted by the Commission. Far West currently serves approximately 15,000 water connections and 7,500 sewer connections.

Purpose of the Proposed Hook Up Tariff

The Company states that a water HUF equitably apportions the costs of constructing additional offsite facilities necessary to provide water production, delivery, storage and pressure among all new service connections. A wastewater HUF equitably apportions the costs of constructing additional offsite facilities necessary to provide wastewater transportation, treatment and disposal facilities among all new service laterals.

Description of the Proposed HUF's

In support of its proposed \$2,000 wastewater HUF, the Company's calculations include certain plant improvements that do not increase capacity. In contrast, Staff uses numbers provided by the Company but bases its calculations on only those investments that will increase capacity, and recalculated its recommended wastewater HUF at \$1,500 per ERU.

Regarding the commercial and industrial customers seeking service from the wastewater division, the Company proposes that HUF's be "calculated by dividing the estimated total daily wastewater capacity usage needed for service using standard engineering standards and criteria by the ERU factor of 187.2 gallons per day." Instead of the Company's proposal, Staff recommends that HUF be calculated based on the size of the service lateral needed to support the new service, as shown in the attachment to the attached Engineering report (Tariff Schedule B).

Regarding the HUF for the water division, Similarly, Staff uses the Company's numbers and agrees with the Company's proposed water HUF of \$2,000 per ERU.

Financial Analysis

Staff utilized the Company's annual report to the Utilities Division for the year ending December 31, 2011, as the report for the year ending December 31, 2012 has not been filed.

As of December 31, 2011, the Company's capitalization totals \$56,505,024 and is comprised of \$7,565,963, or 13.4 percent equity, \$26,743,435, or 47.3 percent long term debt, Advances in Aid of Construction ("AIAC") or \$16,015,223, or 28.3 percent. Contributions in Aid of Construction ("CIAC") of \$9,724,735 are offset by accumulated amortization of \$3,544,332, for net CIAC of \$6,180,403, or 11.0 percent of capitalization. The capitalization is as follows:

| | | |
|----------------|--------------|---------|
| Equity | \$ 7,565,963 | 13.4 % |
| Long Term Debt | \$26,743,435 | 47.3 % |
| AIAC | \$16,015,223 | 28.3 % |
| CIAC (net) | \$ 6,180,403 | 11.0 % |
| Total | \$56,505,024 | 100.0 % |

Staff typically recommends that AIAC and/or CIAC funding not exceed 30 percent of total capitalization, inclusive of AIAC and CIAC for private and investor-owned utilities and Staff typically would not recommend approval of a HUF for a company with the above capitalization. Staff would recommend limiting AIAC/CIAC to 30 percent of total capital because overuse of this type of funding may have negative repercussions. Excessive reliance on AIAC/CIAC limits shareholder/member equity investments to low or non-existent amounts, which may limit the investor's commitment to the operational efficiency or success of the utility. Further, excessive reliance on AIAC/CIAC will reduce the rate base level to the point that it is too low or non-existent to use the rate base to determine revenue requirement by applying a rate of return to it. This may result in the need to use less efficient methods to produce an appropriate level of revenue.

Staff concludes that the existing ratio of AIAC/CIAC to total capitalization is high. However, Staff notes that although the sewer division of Far West received recent approval of a significant rate increase for improvements already completed, the Company indicates that significant improvements remain in the wastewater division. Staff recommends approval of the water and wastewater HUF in this circumstance to mitigate the amount of rate increases that might be needed to support remaining plant improvements for either division.

Staff therefore recommends that the Commission approve the HUF's as shown in the attached engineering report below for each division. Staff recommends approval of the HUF amount of \$2,000 per ERU, based on meter size, for its water division but recommends a lower HUF amount of \$1,500 per ERU, based on sewer service lateral size, for its wastewater division.

Staff has determined that the off-site hook-up fee rates being considered in this filing will have no direct effect on the fair value rate base ("FVRB") of the Company. The Company's Wastewater Division FVRB was determined to be \$19,989,045 in Decision No. 74097 dated September 23, 2013. The Company's Water Division FVRB was determined to be \$10,866,236 in Decision No. 62649 dated June 13, 2000.

The revenue generated from off-site hook-up fees is not considered operating revenue. Rather, such revenue is classified as contributions-in-aid-of-construction ("CIAC"). As CIAC, these fees can be collected and do not affect FVRB until such time as those funds are expended on plant and that plant is placed in service. At that time the appropriate CIAC amount serves as an off-set to plant in service, so that the utility does not earn a return on investments not funded by shareholders/owners.

Staff also recommends approval of a wastewater HUF for qualified RV's equal to 50 percent of the amount charged per ERU, or \$750 based on Staff's recommended wastewater HUF of \$1,500 per 4-inch sewer lateral. Staff further recommends that HUF's for commercial and industrial service seeking service from the wastewater division be based on standard multipliers that correlate to the size of the sewer lateral.

ENGINEERING REPORT

Staff's Engineering Review

Wastewater HUF

To determine an appropriate fee amount per 4-inch service lateral, Staff used the Company's estimated costs from 2012 through 2021 for all wastewater treatment plant ("WWTP") expansion projects, adjusted to eliminate from those costs any facilities that do not add additional treatment capacity.

| ITEM DESCRIPTION | COST |
|---------------------------------------|---------------------|
| 1. Seasons Expansion | \$ 689,804 |
| 2. Del Oro WWTP - Phase II | \$ 2,061,997 |
| 3. Section 14 WWTP - Phase II and III | <u>\$ 4,058,521</u> |
| TOTAL | \$ 6,810,322 |

Staff's Wastewater HUF Calculation:

New treatment capacity of 894,000 gallon per day ("GPD") 894,000 GPD divided by residential usage per the Company of 187.2 GPD equates to 4,775 (rounded) connections. \$6,810,322 divided by 4,775 connections equates to \$1,426 (rounded) per connection.

Recommended Wastewater HUF

Based on its engineering review Staff recommends approval of a wastewater HUF of \$1,500 for a 4-inch lateral.

For RV spaces located in facilities eligible to be billed under the RV Park Rate, the Company proposes to use approximately 50 percent of the standard fee amount per ERU.¹ Staff concludes that the Company's proposal is reasonable and therefore recommends approval of a wastewater HUF of \$750 per RV space for connections located in facilities eligible to be billed under the RV Park Rate.

Far West proposed not to use the standard HUF tariffs for wastewater included in this report for commercial and industrial applicants. Since Far West did not provide any documentation supporting its proposal, Staff recommends that this request be denied.

¹ The Company's proposal is based on an ERU factor of 100 gallons per day per RV space versus the standard ERU factor of 187.2 gallons per day (100/187.2 equals .534 or 53 percent rounded).

Water HUF

To determine an appropriate fee amount per 5/8" x 3/4" meter, Staff used the Company's estimated cost of \$6,982,069 for a two million gallon per day ("GPD") water treatment plant and the Company's estimated water usage of 585.2 GPD per ERU.

Staff's Water HUF Calculation:

2 million GPD divided by residential usage of 585.2 GPD equates to 3,417 (rounded) connections. \$6,982,069 divided by 3,417 connections equates to \$2,043 (rounded) per connection.

Recommended Water HUF

Based on its engineering review Staff recommends approval of a water HUF of \$2,000 for meter size of 5/8" x 3/4".

Tariff Recommendations

Staff is recommending that its standard tariffs for water and wastewater be used. These tariffs are included as Attachments A and B to this memorandum. The fees listed in the tariffs are based on meter size for water, with the 5/8"x 3/4" meter or ERU priced at \$2,000. Larger meters use the meter multiplier to determine their price. For wastewater the fees listed are based on a 4-inch sewer service lateral of ERU priced at \$1,500, with larger sewer service lateral fees increased proportionally.

EXHIBIT A

TARIFF SCHEDULE

UTILITY: Far West Water & Sewer Company
DOCKET NO.: WS-03478A-13-0200

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE (WATER)

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Far West Water & Sewer Company ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Far West Water & Sewer Company.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

“Service Connection” means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

III. Off-Site Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

| OFF-SITE HOOK-UP FEE TABLE | | |
|----------------------------|-------------|-----------|
| Meter Size | Size Factor | Total Fee |
| 5/8" x 3/4 " | 1 | \$2,000 |
| 3/4" | 1.5 | \$3,000 |
| 1" | 2.5 | \$5,000 |
| 1-1/2 " | 5 | \$10,000 |
| 2" | 8 | \$16,000 |
| 3" | 16 | \$32,000 |
| 4" | 25 | \$50,000 |
| 6" or larger | 50 | \$100,000 |

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under this tariff as Contributions in Aid of Construction (“CIAC”); however, such amounts shall not be deducted from rate base until such amounts have been expended for utility plant.

(C) Time of Payment:

- 1) For those requiring a Main Extension Agreement: In the event that the Applicant is required to enter into a Main Extension Agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements or construct such improvements in order to extend service in accordance with R-14-2-406(B), payment of the hook-up fees required hereunder shall be made by the Applicant no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

- 2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide water service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the Applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

EXHIBIT B

TARIFF SCHEDULE

UTILITY: Far West Water & Sewer Company

DECISION NO. _____

DOCKET NO.: WS-03478A-13-0200

EFFECTIVE DATE: _____

OFF-SITE FACILITIES HOOK-UP FEE (WASTEWATER)

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Far West Water & Sewer Company ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide wastewater treatment plant facilities among all new service laterals. These charges are applicable to all new service laterals established after the effective date of this tariff undertaken via Collection Main Extension Agreements or requests for service not requiring a Collection Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Far West Water & Sewer Company.

"Collection Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of wastewater facilities necessary to the Company to serve new service laterals within a development, or installs such wastewater facilities necessary to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement".

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the Applicant and benefit the entire wastewater system.

“Service Lateral” means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. Off-Site Facilities Hook-up Fee

For each new service lateral, the Company shall collect an off-site facilities hook-up fee as listed in the following table:

| OFF-SITE WASTEWATER HOOK-UP FEE TARIFF TABLE | | |
|--|--------|---------|
| Service Lateral Size | Factor | Fee |
| 4-inch | 1 | \$1,500 |
| 6-inch | 2.25 | \$3,375 |
| 8-inch | 4 | \$6,000 |
| 10-inch | 6.25 | \$9,375 |
| RV Park | 0.5 | \$750* |

* per space in park

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under this tariff as Contributions in Aid of Construction (“CIAC”); however, such amounts shall not be deducted from rate base until such amounts have been expended for utility plant.

(C) Time of Payment:

(1) For those requiring a Collection Main Extension Agreement: In the event that the Applicant is required to enter into a Collection Main Extension Agreement, whereby Applicant agrees to advance the costs of on-site improvements or construct such improvements, payment of the fees required hereunder shall be made by the Applicant when payment is made for the on-site improvements or 30 days after the Collection Main Extension Agreement is executed, whichever is later.

(2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Collection Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction by Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide wastewater service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and wastewater service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(I) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **BOB STUMP**

Chairman

3 **GARY PIERCE**

Commissioner

4 **BRENDA BURNS**

Commissioner

5 **BOB BURNS**

Commissioner

6 **SUSAN BITTER SMITH**

Commissioner

7
8 **IN THE MATTER OF THE APPLICATION**
9 **OF FAR WEST WATER & SEWER**
10 **COMPANY FOR AUTHORITY TO**
11 **INSTITUTE A WATER HOOK-UP FEE**
12 **AND A WASTEWATER HOOK-UP FEE**

DOCKET NO. WS-03478A-13-0200

DECISION NO. _____

ORDER

13 Open Meeting
14 November 13 and 14, 2013
Phoenix, Arizona

15 **BY THE COMMISSION:**

16 **FINDINGS OF FACT**

17 **INTRODUCTION**

18 1. On June 19, 2013, Far West Water & Sewer Company ("Far West" or "Company")
19 filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to
20 institute water and wastewater hook-up fees for its water and wastewater divisions. Far West
21 seeks approval to charge a water hook-up fee ("HUF") beginning at \$2,000 for a 5/8" x 3/4" meter
22 and a wastewater HUF of \$2,000 per equivalent residential unit ("ERU"). Presently, the Company
23 does not have HUF's.

24 **BACKGROUND**

25 2. Far West is an Arizona "C" corporation engaged in the business of providing water
26 and wastewater utility service to customers in Yuma County, Arizona under authority granted by
27 the Commission. Far West currently serves approximately 15,000 water connections and 7,500
28 sewer connections.

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
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SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION)
OF FAR WEST WATER & SEWER)
COMPANY FOR AUTHORITY TO)
INSTITUTE A WATER HOOK-UP FEE)
AND A WASTEWATER HOOK-UP FEE)
_____)

DOCKET NO. _____
DECISION NO. _____
ORDER

Open Meeting
November 13 and 14, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

INTRODUCTION

1. On June 19, 2013, Far West Water & Sewer Company ("Far West" or "Company") filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to institute water and wastewater hook-up fees for its water and wastewater divisions. Far West seeks approval to charge a water hook-up fee ("HUF") beginning at \$2,000 for a 5/8" x 3/4" meter and a wastewater HUF of \$2,000 per equivalent residential unit ("ERU"). Presently, the Company does not have HUF's.

BACKGROUND

2. Far West is an Arizona "C" corporation engaged in the business of providing water and wastewater utility service to customers in Yuma County, Arizona under authority granted by the Commission. Far West currently serves approximately 15,000 water connections and 7,500 sewer connections.

1 PURPOSE OF THE PROPOSED HOOK-UP TARIFF

2 3. The Company states that a water HUF equitably apportions the costs of
3 constructing additional offsite facilities necessary to provide water production, delivery, storage
4 and pressure among all new service connections. A wastewater HUF equitably apportions the
5 costs of constructing additional offsite facilities necessary to provide wastewater transportation,
6 treatment and disposal facilities among all new service laterals.

7 DESCRIPTION OF THE PROPOSED HUF'S

8 4. In support of its proposed \$2,000 wastewater HUF, the Company's calculations
9 include certain plant improvements that do not increase capacity. In contrast, Staff uses numbers
10 provided by the Company but bases its calculations on only those investments that will increase
11 capacity, and recalculated its recommended wastewater HUF at \$1,500 per ERU.

12 5. Regarding the commercial and industrial customers seeking service from the
13 wastewater division, the Company proposes that HUF's be "calculated by dividing the estimated
14 total daily wastewater capacity usage needed for service using standard engineering standards and
15 criteria by the ERU factor of 187.2 gallons per day." Instead of the Company's proposal, Staff
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17 new service, as shown in the attachment to the attached Engineering report (Tariff Schedule B).

18 6. Regarding the HUF for the water division, similarly Staff uses the Company's
19 numbers and agrees with the Company's proposed water HUF of \$2,000 per ERU.

20 FINANCIAL ANALYSIS

21 7. Staff utilized the Company's annual report to the Utilities Division for the year
22 ending December 31, 2011, as the report for the year ending December 31, 2012 has not been
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24 8. As of December 31, 2011, the Company's capitalization totals \$56,505,024 and is
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28 net CIAC of \$6,180,403, or 11.0 percent of capitalization. The capitalization is as follows:

| | | | |
|---|----------------|---------------------|---------------|
| 1 | Equity | \$ 7,565,963 | 13.4 % |
| | Long Term Debt | \$26,743,435 | 47.3 % |
| 2 | AIAC | \$16,015,223 | 28.3 % |
| 3 | CIAC (net) | <u>\$ 6,180,403</u> | <u>11.0 %</u> |
| 4 | Total | \$56,505,024 | 100.0 % |

5 9. Staff typically recommends that AIAC and/or CIAC funding not exceed 30 percent
6 of total capitalization, inclusive of AIAC and CIAC for private and investor-owned utilities and
7 Staff typically would not recommend approval of a HUF for a company with the above
8 capitalization. Staff would recommend limiting AIAC/CIAC to 30 percent of total capital because
9 overuse of this type of funding may have negative repercussions. Excessive reliance on
10 AIAC/CIAC limits shareholder/member equity investments to low or non-existent amounts, which
11 may limit the investor's commitment to the operational efficiency or success of the utility.
12 Further, excessive reliance on AIAC/CIAC will reduce the rate base level to the point that it is too
13 low or non-existent to use the rate base to determine revenue requirement by applying a rate of
14 return to it. This may result in the need to use less efficient methods to produce an appropriate
15 level of revenue.

16 10. Staff concludes that the existing ratio of AIAC/CIAC to total capitalization is high.
17 However, Staff notes that although the sewer division of Far West received recent approval of a
18 significant rate increase for improvements already completed, the Company indicates that
19 significant improvements remain in the wastewater division.

20 11. Staff recommends approval of the water and wastewater HUF's in this
21 circumstance to mitigate the amount of rate increases that might be needed to support remaining
22 plant improvements for either division.

23 12. Staff has determined that the off-site hook-up fee rates being considered in this
24 filing will have no direct effect on the fair value rate base ("FVRB") of the Company. The
25 Company's Wastewater Division FVRB was determined to be \$19,989,045 in Decision No. 74097
26 dated September 23, 2013. The Company's Water Division FVRB was determined to be
27 \$10,866,236 in Decision No. 62649 dated June 13, 2000.

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13. The revenue generated from off-site hook-up fees is not considered operating revenue. Rather, such revenue is classified as contributions-in-aid-of-construction ("CIAC"). As CIAC, these fees can be collected and do not affect FVRB until such time as those funds are expended on plant and that plant is placed in service. At that time the appropriate CIAC amount serves as an off-set to plant in service, so that the utility does not earn a return on investments not funded by shareholders/owners.

14. Staff therefore recommends that the Commission approve the HUFs as shown in the engineering analysis for each division.

15. Staff's recommends approval of the HUF amount of \$2,000 per ERU, based on meter size, for its water division but recommends a lower HUF amount of \$1,500 per ERU based on sewer service lateral size, for its wastewater division.

16. Staff further recommends approval of a wastewater HUF for qualified RVs equal to 50 percent of the amount charged per ERU, or \$750 based on Staff's recommended wastewater HUF of \$1,500 per ERU.

17. Staff further recommends that HUF's for commercial and industrial service seeking service from the wastewater division be based on standard multipliers that correlate to the size of the sewer lateral.

TARIFF RECOMMENDATIONS

18. Staff is recommending that its standard tariffs for water and wastewater be used. These tariffs are included as Attachments A and B. The fees listed in the tariffs are based on meter size for water, with the 5/8"x 3/4" meter or ERU priced at \$2,000. Larger meters use the meter multiplier to determine their price. For wastewater the fees listed are based on a 4-inch sewer service lateral or ERU priced at \$1,500, with larger sewer service lateral fees increased proportionally.

CONCLUSIONS OF LAW

1. Far West Water & Sewer Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

...

1 2. The Commission has jurisdiction over Far West Water & Sewer Company and over
2 the subject matter of the application.

3 3. The Commission, having reviewed the application and Staff's Memorandum dated
4 November 1, 2013, concludes that it is in the public interest to approve Far West Water & Sewer
5 Company's request to institute a water hook-up fee and a wastewater hook-up fee with the
6 modifications described herein as recommended by Staff.

7 ORDER

8 IT IS THEREFORE ORDERED that Far West Water & Sewer Company's request to
9 institute water and wastewater hook-up fees be adopted as modified and discussed herein.

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IT IS FURTHER ORDERED that the HUFs as shown in Attachments A and B for the respective divisions be approved.

IT IS FURTHER ORDERED that the wastewater HUFs for qualified RVs equal to 50 percent of the amount charged per ERU, or \$750 based on Staff's recommended wastewater HUF of \$1,500 per ERU, be approved.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:GWB:sms\WVC

SERVICE LIST FOR:
DOCKET NO.

Mr. Craig Marks
10645 N. Tatum Blvd.
Suite 200-676
Phoenix, Arizona 85028

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

EXHIBIT A

TARIFF SCHEDULE

UTILITY: Far West Water & Sewer Company
DOCKET NO.: WS-03478A-13-0200

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE (WATER)

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Far West Water & Sewer Company ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Far West Water & Sewer Company.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

“Service Connection” means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

III. Off-Site Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

| OFF-SITE HOOK-UP FEE TABLE | | |
|----------------------------|-------------|-----------|
| Meter Size | Size Factor | Total Fee |
| 5/8" x 3/4 " | 1 | \$2,000 |
| 3/4" | 1.5 | \$3,000 |
| 1" | 2.5 | \$5,000 |
| 1-1/2 " | 5 | \$10,000 |
| 2" | 8 | \$16,000 |
| 3" | 16 | \$32,000 |
| 4" | 25 | \$50,000 |
| 6" or larger | 50 | \$100,000 |

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under this tariff as Contributions in Aid of Construction (“CIAC”); however, such amounts shall not be deducted from rate base until such amounts have been expended for utility plant.

(C) Time of Payment:

- 1) For those requiring a Main Extension Agreement: In the event that the Applicant is required to enter into a Main Extension Agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements or construct such improvements in order to extend service in accordance with R-14-2-406(B), payment of the hook-up fees required hereunder shall be made by the Applicant no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

- 2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide water service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the Applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

EXHIBIT B

TARIFF SCHEDULE

UTILITY: Far West Water & Sewer Company
DOCKET NO.: WS-03478A-13-0200

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE FACILITIES HOOK-UP FEE (WASTEWATER)

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Far West Water & Sewer Company ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide wastewater treatment plant facilities among all new service laterals. These charges are applicable to all new service laterals established after the effective date of this tariff undertaken via Collection Main Extension Agreements or requests for service not requiring a Collection Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Far West Water & Sewer Company.

"Collection Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of wastewater facilities necessary to the Company to serve new service laterals within a development, or installs such wastewater facilities necessary to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement".

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the Applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. Off-Site Facilities Hook-up Fee

For each new service lateral, the Company shall collect an off-site facilities hook-up fee as listed in the following table:

| OFF-SITE WASTEWATER HOOK-UP FEE TARIFF TABLE | | |
|--|--------|---------|
| Service Lateral Size | Factor | Fee |
| 4-inch | 1 | \$1,500 |
| 6-inch | 2.25 | \$3,375 |
| 8-inch | 4 | \$6,000 |
| 10-inch | 6.25 | \$9,375 |
| RV Park | 0.5 | \$750* |

* per space in park

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under this tariff as Contributions in Aid of Construction ("CIAC"); however, such amounts shall not be deducted from rate base until such amounts have been expended for utility plant.

(C) Time of Payment:

- (1) For those requiring a Collection Main Extension Agreement: In the event that the Applicant is required to enter into a Collection Main Extension Agreement, whereby Applicant agrees to advance the costs of on-site improvements or construct such improvements, payment of the fees required hereunder shall be made by the Applicant when payment is made for the on-site improvements or 30 days after the Collection Main Extension Agreement is executed, whichever is later.
- (2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Collection Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction by Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide wastewater service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and wastewater service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(I) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.